GNWT RESPONSE AND ACTION PLAN

NWT BUSINESS COUNCIL

NORDIC TOUR RECOMMENDATIONS

Policy and Planning
Department of Economic Development and Tourism
Department of Renewable Resources
Government of the Northwest Territories

89-06349/

Northwest Territories Minister of Economic Development and Tourism

MEMBERS OF THE LEGISLATIVE ASSEMBLY
OF THE NORTHWEST TERRITORIES

Dear Colleagues:

I am pleased to table for your consideration the following document which contains the Government of the Northwest Territories response to the N.W.T. Business Council's recommendations arising from the Nordic Tour.

The recommendations have provided insights into new approaches that could contribute to the expansion and diversification of the economy of the Northwest Territories.

Many of the proposed initiatives of the Department of Economic Development and Tourism for 1987/88 result from Nordic Tour recommendations including: the establishment of the Trade and Development Division; the emphasis in the proposed Economic Development Agreement on renewable resource development; the proposed Renewable Resource Capital Support Program; and tourism marketing and product development initiatives.

Furthermore, recommended concepts are also reflected in three of the key principles outlined in my recent budget address, namely, strategic planning, diversification, and developing export markets.

The Government of the Northwest Territories will continue to benefit from the collective experiences of Nordic Countries through the formal association with the Nordic Council of Ministers which was initiated as a result of a Business Council recommendation.

Sincerely,

Tagak Curley,
Minister

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1. BACKGROUND

The Nordic Tour Report of the Northwest Territories Business Council was prepared as a result of a trade mission to Nordic Countries on which the Business Council accompanied the Ministers of Economic Development and Tourism and Renewable Resources. The report contains 17 recommendations dealing with small scale northern economic activities and government assistance programs related to business and economic development. It was recognized that these recommendations could provide fresh insights to government and the private sector and as such deserved investigation.

It is the purpose of this report to respond to the 15 recommendations which were directed to the Government of the Northwest Territories. The responses were prepared by the Department of Economic Development and Tourism in conjunction with the Department of Renewable Resources. The two remaining recommendations which are directed to other agencies or organizations are contained in Appendix A for reference.

Recommendations are directed towards the Action Force on Economic Development, the proposed Economic Development Committee and the Department of Economic Development and Tourism. This ensures that these new ideas as well as others that may arise will be incorporated into an overall economic development strategy for the Northwest Territories. It also ensures that those recommendations of a short term nature will be addressed quickly.

The Government of the Northwest Territories Action force on Economic Development was formed in conjunction with the Federal Ministerial Action force on Arctic Initiatives to deal with the current economic downturn. These action forces have proved to be effective in coordinating federal and territorial initiatives to stabilize the economy and it is anticipated that they will facilitate the development of northern economic policies.

As a result of their meetings the members of the Territorial Action Force have proposed the establishment of an Economic Development Committee of Executive Council. This Committee would be responsible for developing a long term economic development strategy for the N.W.T., securing support from the federal government and coordinating the activities of all relevant G.N.W.T. departments.

The Department of Economic Development and Tourism is currently formulating a long term planning framework. There will be three levels of economic planning: community, regional and territorial and they will be based on the priorities of the residents of the Northwest Territories. The departmental planning framework would ultimately provide support to the efforts of the proposed Economic Development Committee.

2. RESPONSE TO RECOMMENDATIONS

The format of the following responses is to describe what the Government of the Northwest Territories is currently undertaking in the area, what is being proposed and to identify specific actions which will follow as a result of the recommendation. In cases where investigations were required a summary of the findings is presented.

2.1 ECONOMIC PLANNING IN THE NORDIC REGIONS

> "It is recommended that the Government of the Northwest Territories review Nordic economic planning and business development programs in detail to determine if some of the methods and approaches employed have applicability here."

Detailed information on Nordic economic planning and business development programs have been received on request from various sources. To a large extent the proposed planning framework for the Department of Economic Development and Tourism incorporates many Nordic planning concepts. One notable exception being that the proposed planning framework is driven by the community level whereas in Nordic countries it is driven by centralized or national policy. However, it is recognized that strong government policy on economic development is necessary. The proposed Committee on Economic Development would fulfill this requirement.

New methods and approaches to business development programs from Nordic countries and from other sources will be considered upon completion of program evaluations which are currently underway. They will also be considered in new program proposals.

2.2 INTERGOVERNMENTAL RELATIONSHIP WITH NORDIC COUNTRIES

> "The Government of the Northwest Territories and the Government of Canada should forge at least an informational link with the Nordic Council of Ministers."

At the request of the Minister of Economic Development and Tourism the Department of External Affairs has initiated efforts to establish an official link with the Nordic Council of Ministers. The Government of Canada is likewise interested in establishing an association and reports that the initial response from the Council was receptive. The most likely relationship will be at the working group level. This will allow the Government of the Northwest Territories to participate in working groups and seminars. It is expected that the arrangements will be completed within the next two months.

One indication of the positive relationship that has resulted fron the Nordic Tour was the acceptance by the Swedish Undersecretary for Nordic Affairs, Mr. B. Carlsson of the invitation extended by the Misister of Economic Development and Tourism to visit the Northwest Territories. Mr. Carlsson is

expected in May and his program will focus on economic development issues, consitutional affairs and native issues.

2.3 REGIONAL DEVELOPMENT ZONES

> "The Government of the Northwest Territories should consider designating certain parts of the Northwest Territoriess as economic development zones and consider developing an enhanced level of economic stimulation in the zones of most need."

Development zones were established through Nordic regional policy in order to address the problem of rural depopulation. In the 1960's employment in forestry and agriculture declined and as a result people moved from the northern resource based regions to the southern industrialized regions. The establishment of development zones and the accompanying increase in economic stimulation in the northern regions was an attempt to establish jobs in the northern regions to attract people. Currently the overriding concerns of Nordic national policy are to facilitate balanced demographic development and interregional economic opportunities.

While the Northwest Territories does not have the same historical context it does to a limited extent share the problem of regional imbalance. However, with few exceptions the entire Northwest Territories is in need of an enhanced level of economic stimulation. It would be difficult from an administrative and a political standpoint to designate priority zones.

The attempt of the G.N.W.T. to move in this direction through the eligibility criteria of the Venture Capital Program has been met by opposition.

2.4 VEHICLES FOR ECONOMIC DEVELOPMENT

> "The Government of the Northwest Territories should study the Regional Development Fund of Finland with a view to determining if a similar corporate structure might be effective in terms of enhancing economic development in the Northwest Territories."

The Nordic Tour generated a lot of interest in the Regional Development Fund of Finland. Recognising the positive effect that a similar development corporation would have on the economy of the Northwest Territories the Department of Economic Development and Tourism undertook an indepth study on the adoption of a development corporation for the delivery of economic programs. However, due to current circumstances it was not recommended to establish one at this point in time. The following highlights the main findings of the study.

The establishment of a crown corporation solely for the delivery of existing programs will not improve either the effectiveness or the efficiency of economic development programs. There are also

assistance programs provided by the G.N.W.T. which provide support to cultural, social, or political goals which could not be administered by a corporation. As a crown corporation would assume the delivery of the majority of the programs currently delivered by the Department of Economic Development and Tourism its establishment could result in the dismantling of the Department.

The activities of crown corporations are guided by or rather implement the governments economic policy. The Government of the Northwest Territories does not have a formal comprehensive economic policy which makes it difficult to consider establishing a corporation. As indicated earlier it is anticipated that the proposed Executive Council Committee on Economic Development would formulate economic policy for the Northwest Territories. This will allow the government to reconsider the option of establishing a crown corporation.

Crown corporations are used by Nordic and North American governments to allow them to take a more active role in stimulating the economy. For example, corporations can either invest directly in infrastructure eg. industrial parks or indirectly by assuming an equity position. These measures provide further stimulus to business development, increase accountability and provide the private sector with access to management expertise. However, they represent increased government intervention in the private sector. A full public debate will be required before the Government of the Northwest Territories considers establishing a crown corporation.

2.5 TRANSPORTATION

> "The Government of the Northwest Territories should press the Government of Canada to make the development of roads into and within northern Canada a priority once again."

The federal government is currently devolving responsibility for highway construction and maintenance. The responsibility for highway maintenance was transferred to the territorial government in 1981, however, funding levels are negotiated.

Highway reconstruction is being transferred to the G.N.W.T. in two phases. Intra-territorial highway reconstruction was transferred effectively in 1984/85. The federal government approved a transfer of $5.7 million over 15 years for this program; the territorial government was seeking $7.8 million over 10 years in the negotiations. The transfer of inter-territorial highway reconstruction is targetted for April 1, 1987.

New construction is not immediately targeted for transfer due to a lack of a current budget and focus for the Northern Roads Policy. A joint federal territorial review and subsequent revision of the Northern Roads Policy was to be undertaken in 1986. The G.N.W.T. has yet to receive notification of the review.

It is anticipated upon complete devolution of highway maintenance and construction that the territorial government will receive a base budget sufficient to meet maintenance and reconstruction requirements and little will remain for new construction.

Recognizing these constraints the Government of the Northwest Territories adopted a policy position on the multiple use of roads in the Northwest Territories to promote community development, resource development, forestry access and tourism potential.

The territorial government also continues to lobby the federal government for more road development. Recently, a motion was adopted by the Legislative Assembly giving support to the continued construction and completion of the Mackenzie Highway to Inuvik and to the efforts of the Government of the Northwest Territories in negotiating the construction of the Mackenzie Highway. Direction was also given to communicating this priority to the federal government.

In addition, it is anticipated that the Territorial Action Force on Economic Development will continue to lobby the federal government for more road development.

2.6 TRANSPORTATION SUBSIDIES

> "The Government of the Northwest Territories should examine the various transportation subsidy programs in the Nordic Countries with a view to determining the costs associated with them and determining whether similar measures could become a matter of public policy in the years ahead in northern Canada."

While transportation subsidies appear to be an effective stimulus to industry in northern locations the Nordic experience indicates that they are ineffective and very costly both in terms of subsidies and administration.

Transportation subsidies in Nordic countries are designed to equalize the cost of transporting goods throughout the country to the level experienced in the more developed industrial areas. Typical subsidies range from 10 to 50% of freight costs depending on the degree of isolation. As an indication of the cost in terms of subsidies alone the Sweedish Government allocated $4.4 million to transportation subsidies in 1985/86.

A recent review of the transportation subsidy program in Norway indicated that transportation subsidies appear to be of little significance for the majority of recipients as the cost of transporting finished products represents an insignificant portion of total costs. It was concluded that transportation subsidies have no bearing on competitive ability or as regards to decisions related to location, processing extent, marketing or employment.

A large share of the subsidies go to businesses whose location decisions were influenced by other government incentive programs. The subsidies provide most support to industries based on relatively unprocessed raw material which generate a low level of employment and yield a low value added.

The study also concludes that the regulations are complex, subject to misuse, and expensive to administer. The program is under review as a result of the findings of the study. However, it is not anticipated that the program will be cancelled all together due to a dependence which businesses with small profit margins have developed.

The current commercial fishery assistance offered by the Government of the Northwest Territories is an example of a successful application of a transportation subsidy. In this case subsidies are provided to offset high freight costs experienced in the north.

While the concept of transportation subsidies can be applied with success in a certain context in the Northwest Territories the Nordic experience indicates that large scale programs should be avoided.

2.7 MAKE WORK INDUSTRIES

> "Programs such as Unemployment Insurance and Social Welfare, to as great an extent as possible, should be re-directed in favour of providing training opportunities and subsidized work projects in the N.W.T."

In October 1986 the Executive Council directed that the Ministers of Education and Social Services be empowered to negotiate an agreement with the federal government under the Employment Enhancement Initiative.

The Employment Enhancement Initiative is a joint federal territorial initiative designed to increase the participation of social assistance recipients in federal job programs and to divert social assistance funding to programs which will increase the employability of social assistance recipients. The goal is to achieve greater self sufficiency among those dependent upon social assistance.

An interdepartmental committee of officials from the departments of Education, Social Services, Renewable Resources, and Economic Development and Tourism is currently developing a negotiation strategy. As part of its work the committee is designing specific programs which are tailored to the circumstances in the Northwest Territories. The programs will not duplicate the efforts of the federal or territorial governments but rather complement them. The programs will be voluntary and focus on skill development and academic training. The following types of financial assistance are under consideration: wage subsidies, direct hire, and on the job training.

While it is not possible for the federal government to redirect Unemployment Insurance funds a certain amount of flexibility has been introduced to the administration of the Canada Assistance Plan. It must be emphasized that initiative and matching funding is required from the Government of the Northwest Territories in order to implement initiatives under the Employment Enhancement Agreement.

2.8 NORTHERN TOURISM

> "Tourism should be targeted as potentially the most important primary industry in the Northwest Territories. A greater and more consistent effort should be made to develop and market our tourism products. A greater commitment should be made by government to supporting investment in tourism infrastructure."

The Government of the Northwest Territories has recently made a number of major commitments towards the development of tourism in the Northwest Territories. Participation in Expo 86 was a major commitment of the government in this respect. There is every indication that tourism will increase as a direct result of the international exposure that the Northwest Territories received.

The Department of Economic Development and Tourism provides a wide range of marketing and product development assistance to the tourism industry. Travel Arctic, the Departments tourism marketing division is involved in: advertizing, travel information services, media programs, trade development, marketing research, and provides industry assistance programs to the Travel Industry Association, six zone associations, and individual operators. Consistent with the governments commitment to developing the tourism industry Travel Arctic has received a significant budget increase in order to implement their new Strategic Marketing Plan and product development initiatives.

Contained within the proposed Economic Development agreement which is currently under negotiation with the federal government is a new Subsidiary Agreement on Tourism Development. This subsidiary agreement will provide financial assistance for market development, product and facility development and tourism industry support. It is anticipated that if the Economic Development Agreement is ratified by the federal government this particular subagreement will provide a significant stimulus to the tourism industry.

It can be concluded that the Government of the Northwest Territories does recognize the importance of and has made major commitments towards the development of the tourism industry. As there is a strong relationship between tourism and wildlife due consideration will be given to wildlife management plans. Such coordination will enhance the long term viability of tourism.

2.9 PRODUCTION OF FINISHED GOODS

> "Industry and government should collaborate in defining measures to bring northern resource products to a higher state of completion than is occurring at present."

The Government of the Northwest Territories, more specifically the Department of Economic Development and Tourism supports this recommendation and is currently working towards implementation. There is provision within Special ARDA and E.D.A. to provide contributions to cover up to 100% of eligible costs of feasibility and marketing studies for product development. A number of these studies have been completed with assistance from these two programs.

Financial asssistance will also be available under the proposed Renewable Resource Pilot Projects and Applications of New Technologies Program; a component of the Commercial Renewable Resource Use Policy. The Renewable Resource, Arts and Crafts and Small Business Development subsidiaries of the proposed Economic Development Agreement will also provide a major stimulus to the production of finished goods.

The Department of Economic Development and Tourism is also undertaking an import substitution study. This study will identify opportunities for the development of finished goods which are currently imported.

The Government of the Northwest Territories has therefore created a climate to facilitate the development of new products. Further financial assistance programs are available to fully develop their commercial potential.

2.10 ENGINEERING AND TECHNICAL INFRASTRUCTURE

> "Government programs such as E.D.A. should feature measures to support the establishment of resident pools of technically trained personnel who can provide support to light industry."

The current level of development of light industry in the NWT and limited potential for expansion does not make it feasible to attract and establish resident pools of technically trained personnel beyond which is currently available in the major centres.

The lack of access to trained personnel is partially offset by the services offered by the federal and territorial governments and through financial assistance provided by government programs such as Special ARDA and E.D.A. to hire technical experts to undertake product development and feasibility studies. Special Arda also provides assistance to offset the wages of management or technical staff associated with a project and also provides housing assistance.

2.11 NORTHERN MANUFACTURING

> "Municipalities and the governments of the Northwest Territories and Canada should consider implementing programs to reduce the infrastructure costs experienced by manufacturing concerns. Programs to provide low-cost industrial land and industrial parks should be incorporated into business stimulation programs such as E.D.A."

Strengthening the manufacturing sector in the Nothwest Territories would result in increased employment and income and it would also diversify the economic base and increase value added. Currently, there is little opportunity to expand the manufacturing base. The main reasons for this include: limited market size, distance to large markets, high capital and operating costs. Efforts should be directed at developing products related to the renewable resource sector as it holds the most potential and it would be consistent with northern lifestyles.

Recognizing the potential returns to government of investments in this sector the Government of the Northwest Territories will soon be considering implementing a three year corporate property tax rebate for new small businesses engaged in manufacturing, processing and tourism.

Manufacturing projects qualify for contibutions towards capital costs under the current E.D.A. and will continue to under the proposed agreement. Assistance is available to offset basic infrastructure costs (excluding land). Special ARDA provides assistance towards capital costs including site improvements and will also consider providing assistance towards capital costs, including the purchase of land, to projects providing support to other Special Arda projects, ie. construction of access roads or docks.

It is recognized that these measures partially offset the disincentives to the establishment of manufacturing operations in the Northwest Territories and that a more comprehensive concerted effort including the involvement of the federal and municipal governments is necessary to create a strong manufacturing sector.

With reference to the development of products in the renewable resource sector, financial assistance will be available under the proposed Renewable Resource Capital Support Program; a component of the Commercial Renewable Resource Use Policy. This program will provide a significant stimulus to the commercial development of renewable resources.

As indicated in Section 2.4 a crown corporation would be an appropriate vehicle for developing industrial parks, however, the government of the Northwest Territories is not in a position to establish one at this point in time.

2.12 MARKETING NORTHERN PRODUCTS

> "The northern business community, with the support of government, should consider establishing in an appropriate community a permanent trade fair for northern products and services."

In recognition of the potential contribution of trade and industrial development to the economy of the Northwest Territories the Department of Economic Development and Tourism is establishing a new Trade and Development Section. Either directly or through a consulting contract this section will undertake a feasibility study on the establishment of a permanent trade fair for northern products and services. The G.N.W.T. could assist the private sector on such a venture.

It must be stated in this case as elsewhere that the G.N.W.T. will prepare the groundwork and encourage the private sector to assume the lead role.

2.13 AQUACULTURE

> "The two levels of government and the fishing industry should examine the Nordic aquaculture industry and the fledgling industry in Canada with a view to determining where and how aquaculture pilot projects could be carried out in the Northwest Territories."

A contract has recently been awarded under the Renewable Resource Subsidiary of the Economic Development Agreement for the preparation of a pre-feasibility study on the development of arctic char aquaculture. Concurrently, a joint federal-territorial working group is developing an aquaculture policy for the Northwewst Territories. With the feasibility study in place and a policy framework established, any proposed pilot projects could be adequately assessed and implemented.

Provision is made within the Renewable Resource Development Subsidiary of the proposed Economic Development Agreement for assistance to offset the cost of undertaking a pilot project of this type. Funding assistance may also be available under the proposed Renewable Resource Pilot Projects and Application of New Technologies Program. Interest has already been expressed by the private sector in sponsoring a pilot project.

2.14 REINDEER AND MUSKOX HUSBANDRY

> "The native economic development corporations should be encouraged to investigate the possibility of establishing additional reindeer and muskox farming industries in northern locations. Government must be prepared to provide long-term support to such an industry in recognition that it could become a source of employment to many northerners."

Currently there are a number of constraints to the development of

reindeer and muskox husbandry. There is a perceived cultural bias in the Northwest Territories against herding and animal husbandry which presents a barrier to developments of this nature. A lack of information on the range requirements of wildlife populations could allow over-grazing or competition between herded and wild populations. Ongoing harvest studies and range assessment will provide the information necessary to avoid these potential conflicts and land use planning will regulate accordingly.

Current management initiatives are focussed on developing commercial opportunities provided by wild populations of indigenous species such as caribou and muskox. At the present time commercial quotas are not being fully utilized. These available quotas represent opportunities for development in the short term.

In a broader context the Government of the Northwest Territories provides support to and encourages the development of a country foods industry geared to achieving domestic protein self sufficiency. A number of financial assistance programs are available to encourage the use of wildlife resources and enhance their contribution to the territorial economy.

The Department of Economic Development recently hosted a Northern Food Conference which brought together representatives from all sectors of the food industry, native organizations and government agencies. The objectives of the conference were to: examine existing and potential demand for N.W.T. produced foods; evaluate the capacity of existing facilities to cope with current and projected demand and supply, and identify additional requirements if necessary; identify the food handling and hygene requirements to ensure the production and marketing of wholesome products; and recommend the respective roles of government and the private sector in developing and maintaining a viable food industry in the Northwest Territories.

The Department of Economic Development and Tourism will respond to recommendations arising from the conference with follow-up action where appropriate and also work to ensure that other agencies respond.

2.15 WAGE SUBSIDIES

> "The parties in the Governments of Canada and the N.W.T. should examine the wage subsidy and payroll tax programs of the Nordic Countries with a view to creating similar incentives in the Northwest Territories."

Wage subsidy programs in Nordic countries are used extensively as a means to implement regional policy and stimulate employment. However, they are expensive and they influence the private sector to a greater extent than our government would consider. The policies and programs of Nordic governments are certainly socialist in nature which is reflected in the corresponding high

level of taxation.

As a general indication of their expense the Swedish Government paid $6.8 million on wage subsidies in 1984/85 and it cost the Finnish Government $7.5 million to provide wage subsidies in 1985/86. This equated to a cost per new job created of $7,600 and $2,143 respectively. However, the total commitment of funds per new job created through grants of all types was approximately $20,000 in Finland and over $30,000 in Sweeden.

The general philosophy behind business assistance programs in Canada and the Nothwest Territories is to provide contributions to defray the cost of fixed assets which are required to start a business. This stimulates the establishment of new businesses which would not have been possible without the assistance while avoiding creating a dependency which wage subsidies create.

The corporate payroll tax in Sweden is a supplementary pension fee which amounts to 2% on top of payrolls. The Canadian equivalency to reducing this cost to industry would be for the federal government to waive the employers contribution to the Canadian Pension Plan.

3. CONCLUSIONS

The recommendations of the N.W.T. Business Council arising from observations made on the Nordic Tour have provided insights into new approaches that could contribute to the expansion and diversification of the economy of the Northwest Territories.

Many of the proposed initiatives of the Department of Economic Development and Tourism for 1987/88 result from Nordic Tour recommendations including: the establishment of the Trade and Development Division; the emphasis in the proposed Economic Development Agreement on renewable resource development; the proposed Renewable Resource Capital Support Program; and tourism marketing and product development initiatives.

Furthermore, recommended concepts are reflected in 3 of the key principles outlined in the Minister of Economic Development and Tourism's recent budget address, namely, strategic planning, diversification, and developing export markets.

The Government of the Northwest Territories will continue to benefit from the collective experiences of Nordic Countries through the formal association with the Nordic Council of Ministers.

APPENDIX A

Recommendations directed to other agencies or organizations.

"Northern businesses should dedicate themselves to producing specialty products of the highest possible quality to offset somewhat the locational disadvantages associated with being resident in the Northwest Territories."

"Northern Canada Power Commission should consider the hydro potential of all northern communities utilizing, if necessary, the considerable Norwegian expertise. An examination of this kind could be carried out at minimal expense using the services of the Norwegian Institute of Technology."